MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BAC 3684 – SECURITIES INVESTMENT AND PORTFOLIO MANAGEMENT

(B. Acc)

1st JUNE 2018
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.
2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

Question 1 (25 marks)

(a) As an analyst in Bulls and Bear Investment Company, you have derived the following information about 3 securities from past data:

Securities	Expected returns (%)	Standard deviation (%)	Correlation
X	10	12	XY = + 0.6
Y	18	14	YZ = + 0.2
Z	25	18	XZ = - 0.3

Based on the above information;

i. Calculate the expected return for a portfolio consisting of all three securities if equal amounts are placed in each security.

(7 marks)

ii. Calculate the standard deviation for this portfolio, assuming equal weights are invested in each portfolio.

(13 marks)

(b) Explain if the following statement is always true, sometimes true or never true. Please justify your answers:

The more stocks in a portfolio, the greater the degree of diversification.

(5 marks)

Question 2 (25 marks)

(a) An option is a legal contract that gives its owner the right to buy or sell a specified quantity of an underlying asset at a fixed price. Assume you are given the following 2 European Call Options to invest in:

Call Options	Strike Price (RM)	Call Price (RM)
TM_A	50	3.75
TM_B	55	1.86

Calculate the profits for each options if the stock price at expiration ranging from RM50 to RM57 at RM1 interval. What can you conclude from your results with regards to options strike price?

(18 marks)

Continued...

(b) It is very essential for investors to evaluate leading, lagging and coincident indicator when performing stock selections. Explain what is meant by these indicators from economy analysis perspective. If you are given the following information, determine whether the series is a leading, lagging or coincident indicator and interpret the changes given by each series.

Economic Indicators	Changes in Indicators
Manufacturing and Trade Sales	Increases
Index of new private housing units	Increases
Average duration of unemployment	Increases

(7 marks)

Question 3 (25 marks)

(a) The directors of AJ Corp expect to pay a dividend of RM2.00 (annually) a year from today. It is estimated that during the next four years, the dividend will grow at an annual rate of 16% (g1). After that the growth (g2) will be equal to 12% per year and continue at that rate indefinitely. Calculate the present value of the AJ's stock if the required rate of return is 15%.

(13 marks)

(b) Islamic banks invest in Islamic Debt funds to avoid total dependent on loan income and to increase returns on investment. Explain three characteristics of Islamic debt funds that can be utilized for investments.

(12 marks)

Question 4 (25 marks)

a) Based on the following data for ABC stock, calculate the 5-day moving average closing price:

Day	High (RM)	Low (RM)	Close (RM)
1	89.80	87.80	87.88
2	89.90	87.80	89.38
3	87.50	85.70	87.31
4	89.10	87.50	87.81
5	90.30	87.75	88.13
6	89.10	86.70	88.81
7	88.40	85.50	86.75
8	90.60	85.40	85.44
9	91.10	88.60	89.50
10	92.70	88.10	89.31
11	91.90	90.10	91.31
12	91.75	89.25	89.50
13	92.25	89.60	90.81
14	92.75	90.40	92.00

(10 marks)

b) Using the result is question (a), plot the moving average and daily closing prices on the same chart. Use a bar chart to represent closing prices and a line to represent the moving average.

(10 marks)

c) What does the moving average line indicates and what is the indicator for bullish and bearish trend?

(5 marks)

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